

Statement of

**Andrew S. Howell
Executive Vice President and COO
Federal Home Loan Bank of Cincinnati**

Before the

**House Financial Services Committee
Subcommittee on Housing and Community Opportunity**

**“Foreclosure Problems and Solutions: Federal, State, and Local Efforts
to Address the Foreclosure Crisis in Ohio”**

**Cleveland, Ohio
June 16, 2008**

Madame Chair, Ranking Member Capito, and Members of the Committee, I appreciate the opportunity to speak to you today on behalf of the Federal Home Loan Bank of Cincinnati (Cincinnati Bank) about the role our Bank has played to help restore balance to the housing finance market and, specifically, to help at-risk homeowners. My name is Andy Howell and I am Executive Vice President and Chief Operating Officer of the Cincinnati Bank.

The Cincinnati Bank is one of 12 regional Federal Home Loan Banks established by Congress in 1932 to provide liquidity to community lenders engaged in residential mortgage lending and economic development. For over 75 years we have fulfilled this housing finance mission with a successful cooperative structure comprised of local lenders and regional management. Our primary business is the provision of low-cost credit in the form of secured loans, or “Advances,” to members. Our members, in turn, use these Advances to fund their daily credit needs such as originating mortgage loans, investing in community projects or managing their own balance sheets.

Addressing the Current Housing Environment

Economically and socially, the state of Ohio has been negatively affected by the substantial rise in residential foreclosure activity. Since 2000, annual home foreclosures in Ohio have more than doubled, with a concentration in the northeast part of the state, according to state and federal court records. Although questionable lending practices of some within the housing finance industry have contributed to the rise in home foreclosures, the underlying economics of the region are also a factor. A declining manufacturing base, related job losses and a demographic shift have made it difficult to sustain a meaningful recovery to date.

The impacts of foreclosures are substantial to both the homeowners and their communities. Rising home vacancies can lead to a range of problems for affected neighborhoods, from declining home values to increased crime, to an erosion of the municipal tax base and community destabilization. For these reasons the Federal Home Loan Bank of Cincinnati has a strong interest in working with our member financial institutions and community housing partners to develop meaningful foreclosure assistance programs.

The Cincinnati Bank’s role in the current stressed housing environment increased dramatically in 2007 due to the unprecedented disruptions in the credit and mortgage markets

that have continued into 2008. Industry access to liquidity was substantially restricted and members increasingly turned to us to support their daily funding needs. Demand for our core product, Advances, rose to historic levels, growing by more than 27 percent, or \$11 billion, during 2007. At the end of the first quarter of this year, our Advances approached \$62 billion, an increase of nearly 50 percent compared to the end of 2006.

As you can see, meeting our congressionally mandated liquidity mission has been a full-time job. At the same time, our Board of Directors and management were also engaged in a series of activities to assess the scope of the foreclosure issue within the Fifth District and develop possible interventions. We believe we have been a leader among the Federal Home Loan Banks in addressing the foreclosure crisis. Through the combination of input from our members, direction from our Housing Advisory Council and leadership by our Board of Directors, we believe that the Cincinnati Bank has been aggressive in developing programs to assist our members in dealing with the difficult economic and foreclosure environment.

Our Board is represented here today by Grady Appleton, Executive Director of East Akron Neighborhood Development Corporation and Leslie Dolin Dunn, Retired Partner, Jones Day, Cleveland, Ohio. I want to commend our Board's leadership in taking the initiative to implement meaningful programs.

Federal Home Loan Bank Programs

What we've learned from our members and our housing partners is that this is a problem with many facets, and solutions must come from many different angles. Recognizing this, our Board authorized the implementation of three specific foreclosure mitigation programs that address the problem in different ways, and a fourth program is under development.

The first program is called HomeProtect. In this program, we made available to our members \$250 million in Advances at our cost, targeting these funds to help our members refinance homeowners at risk of delinquency or foreclosure. We instituted this program in June 2007, and have approved commitments of more than \$128 million since then.

Second, we have taken actions to direct more of our Affordable Housing Program funds toward the foreclosure situation. As you know, the Affordable Housing Program is the result of a congressional mandate, to set aside 10 percent of our profits annually to support affordable housing for very low- to moderate-income households in the Fifth District. This is our largest

housing initiative, and it has the most impact in our district. Since 1990, we have committed nearly \$280 million to help create 43,000 units of affordable housing in Ohio, Kentucky and Tennessee. We award grants and subsidized Advances through a competitive process, individually scoring each application based on the merits of the project and characteristics of the clientele being served.

Later this year we will award roughly \$13 million through this program and we have taken steps to target the scoring of these applications to high-foreclosure areas, and to favor projects that will return abandoned foreclosed homes to occupancy. We recognize the detrimental effect that abandoned homes will have in neighborhoods throughout our district, and we believe this effort will help communities recover from the effects of the foreclosure crisis. With these new scoring criteria, we expect to see funds directed to those areas of Ohio that have been hardest hit by the foreclosure crisis.

Third, in February 2008, our Board instituted a voluntary program, called Preserving the American Dream, to provide \$2.5 million for foreclosure counseling and mitigation. Our Board began in 2003 to voluntarily commit a portion of our profits to specific housing programs. This voluntary commitment has helped provide downpayment assistance for minorities and those with special needs. We have also been able to create set-asides for special situations. After Hurricane Katrina devastated New Orleans, for instance, we set aside funds to provide downpayment assistance to households displaced by the hurricane and relocated into our district.

This year, facing the current crisis, our Board raised our voluntary commitment from \$3 million to \$5 million for 2008, and directed half the funds to foreclosure mitigation. Discussing the foreclosure issue with our Board of Directors and our housing Advisory Council, we learned that we could help many families avoid foreclosure with just a few thousand dollars, to help them become current on their mortgages or to cover the costs of refinancing. In Preserving the American Dream, we will provide up to \$3,500 per household, through our members and qualified non-profit counseling agencies, to assist with foreclosure mitigation. We accepted applications for this program through June 2, and our Board of Directors will approve these grants in July.

Along with these three programs, we have taken additional actions. On our web site, www.fhlbcin.com, we established and continuously update a Foreclosure Guidance page, where we describe our programs and share links to other resources. Our members tell us that early

communication is critical to keeping residents in their homes, and we urge consumers to engage in early communication with their lenders.

Also, we have lent our expertise to several efforts to pull together community resources to address the situation. Ohio initiatives have included participation in the Governor's Foreclosure Prevention Task Force and in a bi-partisan Ohio Congressional Roundtable in Washington, DC, in 2007.

Obstacles and Challenges

There is also a fourth program proposed, one that requires a regulatory waiver. Regulations currently prohibit the Bank from using Affordable Housing Program funds to help our members refinance mortgages for at-risk homeowners. We have petitioned our regulator, the Federal Housing Finance Board, for a regulatory waiver that would allow the use of Affordable Housing Program funds for refinancing. This waiver would allow us to help homeowners whose loss of equity in their homes has become an impediment to refinancing their mortgages. Other Federal Home Loan Banks have made similar requests, and the Finance Board is considering a change in the regulation to allow refinancing assistance. We are awaiting a final decision on this.

How have these efforts worked so far? It's too soon to say. We have experienced modest success with HomeProtect. Unfortunately, the level of discount does not fully compensate for the risk involved to lenders who did not originate the loan. Our experience is that many stressed homeowners did not originate mortgages with Cincinnati Bank members.

We anticipate greater success with our new initiatives and have already received a large number of applications for Preserving the American Dream grants. We also hold seminars to educate our members and housing partners on our housing programs, and interest in those has been strong.

Conclusion

In closing, we note that this current housing crisis was not created overnight, nor can it be fixed overnight. It also will not be fixed with a one-size-fits-all solution. A collaborative effort that involves all interested parties will be key to the development of effective solutions. That is why we have chosen to address the problem from several different perspectives. The Federal

Home Loan Bank, its 726 members and hundreds of housing partners are working diligently to provide long-term solutions to create and maintain healthy communities and cities.

Madame Chair, thank you for the opportunity to address the Committee on this important matter. I will be happy to answer questions at the appropriate time.

ANDREW S. HOWELL

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER FEDERAL HOME LOAN BANK OF CINCINNATI

Andrew S. Howell holds the position of Executive Vice President and Chief Operating Officer at the Federal Home Loan Bank of Cincinnati (FHLBank). He is responsible for the FHLBank's Accounting, Bank Operations and Treasury departments, as well as Mission Asset Activity, which includes Credit Services, Mortgage Purchase Program, and Housing and Community Investment.

Mr. Howell began his career at the FHLBank in 1989 as the Manager of Credit Services. He was promoted to Senior Vice President of Credit Services in 2000, where he was responsible for the development and administration of the FHLBank's Credit Policy. In 2007, he was promoted to Executive Vice President, Mission Asset Activity, and in 2008, he was promoted to his current position. Prior to 1989, Mr. Howell served as Vice President, Commercial Lending, at Huntington Bank and in various credit and lending positions at Bank One and First National Bank of Cincinnati.

Mr. Howell holds an MBA with a concentration in management from the University of Cincinnati and a bachelor's degree in finance from the University of Kentucky.